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U.S. BANKRUPTCY COURT  
SAVANNAH, GA

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF GEORGIA  
SAVANNAH DIVISION**

In re:

Friedman's Inc., et al.,

Debtors.

Case No. 05-40129

Chapter 11  
Jointly Administered

Hon. Lamar W. Davis, Jr.

**LIMITED OBJECTION OF THE COLLATERAL TRUSTEE TO THE MOTION  
TO APPROVE A SETTLEMENT WITH JEWELRY INVESTORS II, L.L.C.**

William Kaye, the Collateral Trustee (the "Collateral Trustee") pursuant to that certain Collateral Trust Agreement, dated September 8, 2004, among Friedman's Inc. and other identified parties, as grantors, and William Kaye, as Collateral Trustee (the "Collateral Trust Agreement"), as and for his Limited Objection (the "Limited Objection") to the Motion, dated June 10, 2005 (the "Motion"), to approve a settlement with Jewelry Investors, II, L.L.C., respectfully states as follows:

**Summary of Requested Relief**

1. Friedman's Inc. and certain of its subsidiaries and affiliates (collectively, the "Debtors") have requested that this Court approve a multi-party agreement among Jewelry Investors II, L.L.C. ("JI"), Harbert Distressed Investment Master Fund Ltd. ("Harbert"), the Official Committee of Unsecured Creditors (the "Committee") and the Debtors.

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2. In connection with the Motion, the Debtors seek entry of a proposed order (the "Proposed Order"), which provides in paragraph 5 as follows:

Pursuant to the terms of the Settlement Agreement, no transfers of any claims subject to the Vendor Lien Program shall be effective unless the parties to such assignment and Jewelry Investors exchange mutual releases consistent with the releases granted by the Debtor Releasors to the Jewelry Investors Releasees as set forth in the Settlement Agreement.

3. The Collateral Trustee respectfully submits that paragraph 5 of the Proposed Order conflicts with, and impermissibly amends, the proposed Settlement Agreement annexed to the Motion as well as the Collateral Trust Agreement and certain related documents, and therefore the Proposed Order in its present form is objectionable. The Collateral Trustee respectfully submits that the proposed Order should be modified as set forth herein.

#### **Limited Objection**

4. By the Motion, the Debtors request that the Bankruptcy Court approve a settlement of the remaining claims of JI, one of Friedman's pre-bankruptcy senior lenders. Upon information and belief, the Official Committee of Unsecured Creditors supports the settlement.

5. Paragraph 4(l) of the Settlement Agreement provides as follows:

Neither Harbert nor its affiliates shall accept an assignment of any claims subject to the Vendor Program unless the parties to such assignment and Jewelry Investors exchange mutual releases consistent with the releases given herein. The Debtors shall not consent to the assignment of any other claims subject to the Vendor Program not subject to the Consent Motion Order unless the parties to such assignment and Jewelry Investors exchange mutual releases consistent with the releases given herein.

6. Paragraph 4(l) reflects an apparent agreement by the Debtors that they will not consent to assignments of claims secured by the Trade Creditor Lien (as defined in the Collateral Trust Agreement) absent certain releases being exchanged. The Collateral Trustee does not object to Paragraph 4(l) of the Settlement Agreement, as it does not appear to offend the terms of the Collateral Trust Agreement and related Secured Trade Creditor Program documents (including the Security Agreement, dated September 8, 2004).

7. However, Paragraph 5 of the Proposed Order departs from Paragraph 4(l) and could be construed as a unilateral, albeit slight, modification of the assignment provisions of the Security Agreement and related documents. It would be entirely inappropriate for an Order entered in connection with a proposed Settlement Agreement (to which the Secured Trade Creditors and the Collateral Trustee are not party) to effect such a modification to the Secured Trade Creditor Documents, particularly when the proposed Settlement Agreement by its own terms does not even mandate such broad relief.

8. The Collateral Trustee respectfully submits that paragraph 5 of the Proposed Order should be modified in its entirety as follows: "Without limiting the foregoing general approval of the Settlement Agreement, Paragraph 4(l) of the Settlement Agreement is hereby expressly approved."

9. Alternatively, Paragraph 5 of the proposed Order should be deleted in its entirety and Paragraph 1 of the Proposed Order should be modified in its entirety as follows: "The Motion is hereby granted and the Settlement Agreement is hereby approved in all respects."

10. If either of these minor changes are made to the proposed Order prior to its entry (each being more consistent with the terms of the Settlement Agreement than the present proposed Order), the Collateral Trustee's limited objection as set forth herein may be deemed adequately addressed and withdrawn.

Wherefore, the Collateral Trustee respectfully requests that the Proposed Order be modified consistent with this Limited Objection.

Dated: New York, New York  
June 28, 2005

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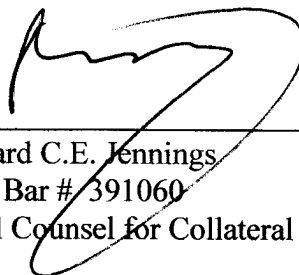
**IN THE UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF GEORGIA  
SAVANNAH DIVISION**

**IN RE:           FRIEDMAN'S, INC., et al.           )       CHAPTER 11  
                  Debtor                                )       CASE NO.: 05-40129-LWD  
  )       Jointly Administered**

**CERTIFICATE OF SERVICE**

I, Richard C.E. Jennings, certify that I have served a copy of the **LIMITED OBJECTION OF THE COLLATERAL TRUSTEE TO THE MOTION TO APPROVE A SETTLEMENT WITH JEWELRY INVESTORS II, L.L.C.** on persons listed on the attached Exhibit "A" by depositing a copy of same in the United States mail with the addresses being listed below and sufficient postage affixed thereto or by hand.

THIS 28<sup>th</sup> day of June, 2005.



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